

Testimony of David M. Ratcliffe
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Introduction

My name is David Ratcliffe and I am Senior Vice President, External Affairs of the Southern Company. I am testifying today on behalf of Southern Company, which is the owner of five domestic operating electric utilities including Georgia Power Company and Savannah Electric Power here in Georgia, Alabama Power, Mississippi Power and Gulf Power. It is also the parent of Southern Energy, Inc., which owns an electric utility in Great Britain and power plants around the globe. In our Southeastern service area, we have over 30,000 MW of capacity and serve over 3.5 million customers.

In compliance with Rule XI, clause 2(g)(4) of the Rules of the House and Rule 4(b)(2) of the Commerce Committee, we disclose that Southern Company through its operating subsidiaries provides, pursuant to franchise obligations, electrical service to federal

facilities such as military installations, federal courthouses, U.S. Postal Service buildings, Social Security Administration, Internal Revenue Service and other federal service and operation functions.

I appreciate your initiating this series of field hearings in Georgia and in our home town of Atlanta, and believe we have a compelling story to tell. I wish to focus on three areas in my testimony today: (1) the current state of the electric industry here in Georgia and the Southeast; (2) restructuring issues that must be considered in the transition to retail competition, and; (3) Southern Company's recommendations to Congress.

Southern Company is not opposed to competition, nor are we opposed to federal legislation dealing with the transition to competitive electricity markets. We do believe that the key is to get the transition right so as to ensure that all customers benefit from competition and that reliability and quality of electric service is enhanced. We also believe that Congress should deal with those federal transition issues which only it can deal with, and leave the timing, phasing and details of retail competition to the states. While the character of the electric power system has been interstate in nature almost since the industry's inception, it is state regulators who have always had the role of regulating retail service. States are also in a better position to determine the industry structure and changes that would best serve the citizens within the state.

Thus the issue is not whether competition will happen. The market is pushing competition into the electricity industry. States are moving to adopt competitive programs. The issue

is what is the appropriate role for Congress to promote and enhance this transition.

Should states be allowed to proceed at their own pace, in their own ways, or even reject restructuring if they find that it is not in the best interests of consumers within the state?

We believe that the answer is yes, and that states can go their own way without any inherent conflicts with interstate commerce.

The Current Electric Industry Model in Georgia

While Georgia, like most states, has assigned retail service areas, we are also unique in the nation. We already have a limited program of customer choice that has been in place for almost 25 years. Large, new customers coming into the state with a connected load of greater than 900 kW (with some exceptions) have a one time choice of electric supplier. There are 93 electric suppliers in Georgia that can compete for this new load. Since the program began with enactment of the Georgia Territorial Act in 1973, about 2800 customers statewide have been able to make this selection of supplier.

We are active in competitive wholesale markets to lower the costs of our energy supply.

The Georgia Integrated Resource Planning Act requires us to seek out, through competitive bids, the lowest cost supplies to meet our incremental capacity needs. We have formed a Southern Company Wholesale Group to buy and sell wholesale power in the region for the benefit of our native load customers. Electric utilities in the state also benefit from an Integrated Transmission System, jointly-owned by Georgia Power,

municipal, and cooperatively-owned utilities. We had open access in the state long before FERC Order 888.

Georgia Power Company is an active participant in state and local economic development activities. Site Selection magazine has routinely named Georgia Power Company one of the top ten economic development organizations in the country. In the past five years, our staff assisted companies with locations accounting for over \$3 billion in capital investment and over 38,000 jobs. Our services include management of a state-of the-art audio visual demonstration center (The Georgia Resource Center); engineering services including business park design and development of site and building marketing materials; production of demographic and business marketing information. Constantly seeking innovative methods for marketing Georgia's communities, Georgia Power is currently leading "Operation Legacy" -- a program which is leveraging the exposure of the Olympic Games to attract additional targeted investment into the state. Through our Area Development group, we also offer services such as sales team training for communities and the development of downtown revitalization plans.

We have a large number of price and service options available to meet customer needs. Georgia Power operates the largest real time pricing program in the country, with over 500 customers enrolled. Southern Development Investment Group is investing in new technologies and services to add value to electricity use. Through Georgia Power's unique Technology Applications Center, we provide training for customers in electric technology issues, information regarding the latest energy saving techniques, and assistance to

customers throughout the Southern Company region in solving technological problems related to their business. We have also developed partnerships with our customers to provide services that help them manage their electricity use and reduce costs. Our other operating companies have all of these same types of programs. In customer satisfaction surveys of investor-owned utilities, Georgia Power and the other operating companies of Southern Company are always at or near the top of the list.

Georgia Power and the other operating companies are also quite active in community affairs. Among the programs we're involved in are community service projects, sponsorship of The Atlanta Project, electrical safety and environmental education programs, recreation development, tree recycling programs, and numerous environmental programs. We are a major player in helping to improve educational opportunities in our service areas. This includes involvement with local schools, mentoring, tuition scholarships, a matching gift program, adult education and math and science education. We are also a major sponsor of charitable and community events in the state, and a major contributor. Through Project Share, which we initiated in 1985, we match customer contributions to assist low income customers on a dollar for dollar basis and turn the funds over to the Salvation Army. And finally, we provide significant funding for research and development projects to improve the efficiency of energy use in the state.

Georgia Power is also the largest private contributor to local government and school system operations in the state -- paying almost \$85 million annually in property taxes and more than \$80 million annually in municipal gross receipt taxes. Burke County, located in

east Georgia, receives \$25 million in annual tax revenue, as a result of our Plant Vogtle being located within the County. This represents 80% of the tax base for local schools. This is all in addition to state and federal taxes. The potential loss of all or any part of these revenues as a result of retail competition and its effects on plant valuations and utility revenues could have significant ramifications for state and local governments in Georgia.

All of this is meant to say that Georgia Power has a strong commitment to the state and to our customers. We are more than just a commodity provider of electricity. We are concerned that in the rush towards competition, consideration of the added value that our company provides in the state will be lost in the shuffle. The current electric system provides low prices, a high level of reliability, and value added services for our customers, our state and our community. The price and quality of service in the southeast is different than other states that have already moved toward restructuring their electric industry.

In a future competitive environment all suppliers of electricity must have the same level of commitment to the state and communities that we have today. Congress should allow states to decide whether the benefits of the current system exceed the potential benefits of increased retail competition. States are much better positioned to determine the relative costs and benefits of industry structure changes.

Key Transition Issues

For competition to improve on the current system, there are many issues that must be properly dealt with in the transition. These are issues which really can only be effectively addressed by state legislatures and regulators. They include:

- market structure -- How should the market be structured? Should it be a competitive pool from which customers can buy directly, or can customers be allowed to sign whatever deal they want?
- timing -- Over what period should retail competition be phased in, given economic and technical constraints?
- cost shifting -- How does the state preclude competition from being used as a means to unfairly shift costs from one class of customers to another?
- stranded cost recovery -- We believe that utilities should have the right to collect prudently incurred costs which were incurred to meet their contractual or legal obligations to serve customers within their franchise area. These are costs previously approved by the state regulatory body. Therefore, it is for this same body to have jurisdiction over the recovery of these costs.
- public policy programs -- Over the years, utilities have assumed a public service role within the states and localities in which they operate. This includes assistance to low income customers, public good research and development, special conservation and environmental programs, and others. If these programs are to be continued in a

competitive world, new mechanisms may have to be found to pay for them that does not impose all of the burden on any single market participant

- reliability -- While competition need not harm reliability of the system, special care must be taken to ensure that the current system of voluntary coordination is enhanced as appropriate. Reliability and quality of supply to the customer must not be lowered during the transition.
- state and local taxes -- this is one of the most important issues, and one that will require time and careful attention in the states. There are really two different types of issues:
 - ⇒ First, there are state taxes which may not be evenly applied to in-state and out-of-state competitors. For example, in Georgia we have a fuel tax, which is applied to in-state generation, but not on power imported from out of state. This would put Georgia suppliers at a competitive disadvantage relative to suppliers in other states, a situation which only state governments can remedy.
 - ⇒ Second, retail competition could have a substantial impact on state and local tax collections. If the value of utility property decreases as a result of competition, then tax assessments will also have to decrease, and less revenue will be available to tax. This will be an especially difficult problem for those locales where we have large plants situated. In some of these towns or counties, utilities may provide over 50% of total revenue collection by the local government. Clearly, if these local governments are not to be severely impacted, state legislative action to fix these problems will be needed.

- consumer protections -- Laws and regulations must ensure that consumers are protected from unscrupulous marketers and deceptive practices, which could show up in the electric industry under the move to competitive markets.
- uneven regulation -- In Georgia, as in many states, cooperative utilities and municipal electric systems are not regulated by the Public Service Commission. With the expectation that some regulation will remain in place, it would be unfair to regulate investor-owned utilities differently than cooperatives and municipal utilities. and to provide them other state subsidies or advantages. These utilities also receive some state subsidies and preferences, such as tax exemptions, which would create an unlevel competitive playing field. State legislatures will need to address these issues.
- universal service -- Electricity can no longer be considered a luxury in this day and age -- it is clearly a necessity for all households and businesses in the country. Without a properly implemented transition, low income customers and other smaller customers without the economic clout to find the best deals may be left behind and face increased costs. And while residential customers in densely populated areas, with fairly large bills may be attractive to aggregators, not all customers will be so attractive. States must be allowed to implement a transition to competition which allows for the continuation of universal service at affordable prices and provides a mechanism for all market participants to share fairly in the costs.
- unbundling -- Efficient competitive retail markets, may require the ability for customers to buy generation and other services separately. Utilities have generally not used accounting practices in the past which allows for easy separation of these costs.

New cost accounting systems will need to be developed. Another issue is that there are costs borne by a utility today which can not be ascribed to a particular customer. For example, we currently maintain generation and transmission reserves to keep blackouts at an absolute minimum. Maintaining this level of reliability is currently incorporated in customer rates. If a customer leaves our system to purchase from a competitor, we still bear those costs, and those reserves still benefit the customer. Thus, a mechanism must be found by which all customers share equally in these joint costs of maintaining the system, regardless of their supplier.

- nuclear safety -- Clearly, it is important that nuclear licensees remain financially viable so that they may safely operate and/or decommission existing nuclear plants. The NRC is required to ensure that this remains the case.
- the Integrated Transmission System -- This is an issue unique to Georgia, but which points out the absolute need for restructuring issues to be left to state determination. Georgia's current jointly-owned transmission model has generally worked well in the past, but the arrangement may need to be revisited in a world where we are competing against one another for retail customers. Revising the Transmission System Agreement, which took years to formulate initially, will take time and a great deal of effort.

All of these issues point to the need for states to control the timing and form of electric utility industry restructuring. Forty-nine of the fifty states already have retail competition under consideration. In our area, the Georgia Public Service Commission has begun a

series of workshops to address restructuring issues. Mississippi is starting hearings on the subject today. Florida has initiated a legislative study committee. And in Alabama, legislation to mandate competition was introduced in the legislature last year. Thus, while Georgia and neighboring states are studying the issues now, we do not have a crisis requiring immediate and drastic change. We have the opportunity here to learn from what works and doesn't work in high cost states, and to take the time to get it right.

Setting a date certain in Federal legislation, regardless of the date chosen, may not be appropriate for some states that will need more time. Other states may decide that restructuring is not in the best interest of the state's consumers. They should be able to make that choice -- while not blocking interstate wholesale or retail trade of electricity between other states. Authority to regulate retail service has always rested with the states, and such authority is a cornerstone of the Federal Power Act. All states are beginning from a different starting point, and all states will need to proceed at a different pace according to their own needs. The complexity of the issues and the time that will be needed to resolve them suggests a deadline for state action would not be in the public's best interest.

Recommendations for Congress

There are several important electric industry transition issues which states do not have the ability or authority to deal with, and which will require Congress to act. Thus, we support federal legislation which addresses the following issues:

- ensuring that there is clear state authority to mandate retail competition;
- clarifying the boundaries between federal and state jurisdiction over retail transmission and distribution
- ensuring that states (or transmission owners) have the authority to impose reciprocity requirements (should they choose to do so) -- i.e., to preclude a potential supplier from selling at retail to another utility's retail customers unless that potential supplier's transmission system is also open to retail competition. While there are some questions as to whether or not states might already have this ability, careful clarification in federal law would be useful;
- ensuring fair and efficient competition by eliminating the ability of government-owned and cooperative utilities to use federal subsidies and preferences and their lack of regulatory oversight for advantage in competitive markets, and;
- repeal or reform of the Public Utility Holding Company Act (PUHCA) and the Public Utility Regulatory Policies Act (PURPA). In this regard, we supported legislation introduced in the Commerce Committee last year by Representative Tauzin (PUHCA) and Representative Stearns (PURPA).

By addressing these issues, Congress can ensure that states will have all of the tools they need to deal with electric restructuring in their legislatures and regulatory agencies.

Congress should also monitor state activity. If problems develop because of the different pace of states or different approaches to retail access, then Congress can take appropriate action at that time.

Wholesale markets are now competitive and states are already acting to introduce retail competition. States with the highest costs may act faster on retail competition, but it is appropriate to allow states to proceed at the pace best matched to their own unique circumstances. States with already low electric rates might prefer to rely on wholesale competition while they watch the experience of other states with retail competition.

The continued provision of reliable and affordable electric service is critical to the nation's security and well-being -- we must get it right, and we pledge to work with this Committee, the Congress, and with our own states to ensure that we do get it right.

I thank you for the opportunity to present our thoughts on federal electric utility restructuring legislation, and we look forward to a continuing dialogue with the Committee as it continues to examine this critical issue.

Summary of Testimony of
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House Commerce Energy and Power Subcommittee
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- Competition in electricity markets in the southeast and across the U.S. is evolving and accelerating. Forty-nine states have retail competition under consideration. In Georgia, a series of PSC workshops on restructuring is underway. Mississippi has started hearings. Florida has initiated a study committee and Alabama had legislation to mandate competition introduced in 1996.
- Southern Company supports federal legislation to promote and ease the move by states toward retail competition. We do not believe it is necessary to have a federal mandate as to the pace and structure of state programs.
- Southern Company and Georgia Power offer a wide array of comprehensive and unique value added services to its customers in addition to reliable and low cost electricity. These include top rated economic development programs, price and service options, the development of new technologies to add value and reduce energy costs, a Technology Application Center and other customer partnerships to maximize energy use. We also are leaders in community support and are the largest taxpayers in most local jurisdictions. The transition to competition must ensure that these products and services are not jeopardized and that all market participants contribute to their continuation.
- There are numerous transition issues including market structure, timing, cost shifting, stranded cost recovery, reliability, universal service, uneven regulation and others. These must be dealt with at the state level.
- There are actions that only Congress can take to promote and ease the transition to competition. These include clarifying state authorities and boundaries between state and federal jurisdictions, ensuring state reciprocity authority, eliminating the use of federal subsidies and preferences for competitive advantage and repealing PUHCA and PURPA.